Reviewed by Finance & Audit Committee – May 14, 2003

To: GVTA Board of Directors

From: Fred Cummings, Project Director Fraser River Crossing

Date: April 30, 2003

Subject: **Fraser River Crossing, Capital Project No. 0214**
Additional Budget Request

Recommendation:

That the TransLink Board of Directors approve an increase of $32.75 million to the Fraser River Crossing's (FRC) project development and property acquisition budget, with all such funds being transferred from the MRN Major Capital budget and incorporated into the project's capital costs with the intent of recovering all costs from the Authority or Concessionaire at close of transaction (contract signing).

PURPOSE

The purpose of this report is to request authorization for an additional $32.75 million in project budget, over that previously approved by the Board in May 2002, to advance the acquisition of property along the alignment and cover the costs of additional project development efforts.

BACKGROUND

In May of 2002, the Board approved a budget allocation of up to $5 million to undertake the project planning, environmental studies, engineering and other work required to identify the preferred option(s), to prepare project specifications and contract terms for tender documents and to maintain on-going communication and consultation with affected residents, businesses and communities.

The Board also approved up to $8 million for the strategic acquisition of properties as required to protect corridors and minimize ultimate property acquisition costs.

The budget was transferred from the MRN Major Capital budget with the intent to recover the costs from future project revenues should the project proceed. The project team is operating under the principle that any costs incurred during the planning phase will be recovered when the contract is executed with a concessionaire, or in the case of an authority model, once an authority is established and contracted to deliver the FRC. The current schedule shows that all money spent on property or project development will be recovered within the next 18 months.

Since the project was initiated, the project team has been preparing and implementing a program of work to develop better information and a more detailed definition of the FRC project. Engaging a business advisor has provided the team with a clearer understanding of the work required to make the project "market ready".

The project continues to enjoy widespread public support. Three municipalities have endorsed a memorandum of understanding and efforts will now focus on reaching agreements that clearly outline TransLink, project, municipality and provincial responsibilities. (Discussions are ongoing with the Township of Langley, with staff reports going forward to Council in May. The Township has not endorsed the MoU to date.) Public consultation to address specific neighbourhood or community concerns is continuing, with working groups and timelines established to review any opportunities to limit any negative impacts of the project.

The project is on schedule and will provide a draft RFP for the TransLink Board to review by the end of this year. Options for delivering and financing the FRC will be coming to the Board for review later this year. The project team is currently focusing on preparing its application for environmental certification under the BC Environmental Assessment Act, which will be submitted at the end of June.

A property acquisition strategy is now in place and additional project costs have been identified making additional budget necessary to meet the end deliverable.

DISCUSSION

A budget for project development was estimated based on very preliminary information and a work plan that did not foresee the level of activity that has occurred. Additional budget is required to cover the short fall. Staff recommends an additional $2.75 million for project development and an additional $30.0 million for property acquisition. The project is currently operating under the principle that any costs incurred, will be recovered when the contract is executed with a concessionaire, or in the case of an authority model, once an authority is established and contracted to deliver the FRC. The current schedule shows that all money spent on property or project development will be recovered within the next 18 months.

MRTAC endorsed the principle of borrowing additional money from the MRN Major Capital account on April 30, 2003. In so doing, they were clear that they were not endorsing the additional budget request (because they did not have sufficient detail), only the principle behind financing the additional budget request.

If the project does not go forward for whatever reason, TransLink will have an asset (property) available to sell. However, the project development budget would not be recovered if the project does not receive final approval from the Board.

Project 0214 – Proposed Budget Adjustment

Project Task	**Original Budget ($million)**	**Proposed Adjustment ($ million)**	**Proposed Budget ($ million)**
Project Development	5.00	+2.75	7.75
Property Acquisition	8.00	+30.00	38.00
Totals	13.00	+32.75	45.75 (RECOVERABLE)

The additional budget would be obtained from the MRN Major Capital account with no net impact to TransLink's budget. Borrowing costs are currently accounted for in TransLink's operating budget to permit the long term borrowing for major capital projects, as projects are identified. If there were no spending on major capital in a given year, the money budgetted for borrowing would be transferred to the annual surplus.

The remainder of the properties ($47.0 million) would be acquired after the award of contract and will be the responsibility of the Concessionaire or Authority. It is not necessary to advance this portion of the property budget at this time, since this remaining budget is primarily for partial takings that do not involve relocation. The successful proponent will be asked to optimize the property requirements through detailed design to limit the property requirements wherever possible. If there is an indication of additional activity required prior to award of contract, due to an unforeseen opportunity, the Board will be advised in sufficient time to discuss the risk of proceeding vs. delaying the acquisition until the next phase.

The $7.75 million takes project development to the completion of RFP for issuance. Additional budget will be required for the next phase of the project including evaluation and award of contract, however the budget cannot be estimated at this time until the implementation and financing structure has been finalized. It also goes beyond the current mandate of the project team. The project's business advisor has indicated that $1 to $2 million be budgetted for evaluation, document revision and negotiation between RFP and contract signing.

The project team is requesting additional funds to facilitate an accelerated property acquisition strategy and to fund project development costs that are higher than originally anticipated. A discussion of these requirements follows.

Property Acquisition: Construction of the FRC is anticipated to commence in 2004 and be complete late in 2007. To maintain this schedule and allow the winning proponent unhindered access to property, the project team has identified the need to begin acquiring right-of-way on a much larger scale than was previously anticipated. Previously, the Board approved $8 million for strategic property acquisition during project development. Based on the current alignment, the total estimate for property is $85 million. Of this, $38.0 million (i.e. an additional $30.0 million) is required at this time to acquire those properties that require sufficient lead time to allow for owners of residential, commercial or industrial properties to find suitable replacement land or premises and to relocate. There are a number of partial acquisitions on land currently for sale that could also be advanced to avoid subdivision, rezoning or development on these properties. Partial takings at this time would reduce the acquisition costs considerably, particularly on vacant land.

The remainder of the properties ($47.0 million) would be acquired after the award of contract and would be funded by the Concessionaire or Authority. Acquisition of these properties at a later date would be unlikely to impact the project schedule because the project will not require relocation of the current owner. The successful proponent will be asked to optimize the property requirements through detailed design to try and limit the property requirements wherever possible.

Project Development Costs:

Project planning and development has included several items not identified in the initial budget:

- **Katzie land use plan and advisors.** In November of 2002, the Board authorized the project director to enter into a Memorandum of Understanding with Katzie First Nation. The cost of the use plan, and advisors to support the program, was not previously budgeted.

- **Soil testing.** A geotechnical investigation was initiated to get a better understanding of the soil conditions in the study corridor to better estimate the tunnelling and bridge foundation costs. The new geotechnical information was used in a tunnel feasibility study to revise the high level conceptual analysis done previously. Neither activity was previously budgeted.

- **Traffic forecasts.** The planning team determined that a local area pm peak model was required to determine the design condition for the crossing. Recalibration of the model and running a number of scenarios was an expensive exercise, but the output confirmed what was anticipated and assisted in identifying the municipal

network requirements required to support the project. Again, recalibration of the EMME/2 model was not previously anticipated or budgeted.

- **Abernethy Way.** The scope of the project has increased to include a new portion of road connecting the future Abernethy Way in Maple Ridge with the FRC/Lougheed Highway interchange. Design work, environmental assessment and public consultation for this 3 km road was not previously anticipated or budgeted.

- **Advisory Services Budget.** The original development budget was based, in part, on a preliminary analysis of activities required to support the selection process to March 2004. Based on work to date, the project team now has a better understanding of the level of effort and range and timing of activities to March 2004. Additionally, the Fraser Gateway Program is advancing at a faster rate than was originally anticipated and the FRC project team is actively working to harmonize the FRC project with the Fraser Gateway Program.

- **Traffic and revenue forecast.** As a follow up to the Vollmer Revenue Risk Assessment Study completed last year, a near investment grade traffic and revenue study is required to confirm the revenue potential for the FRC. Although it was known when the budget was prepared that this additional work was required, it was not clear whether this was an activity that the project team or the proponents would undertake. The study objective is to provide an independent, high quality assessment of potential traffic and revenue levels beyond the preliminary review completed so far. The study will be a forecast over a 30 year time period and will explore the optimization of toll revenues, the implications of alternative toll collection technologies and will provide a detailed sensitivity analysis on key input assumptions. It will also explore the implications and interdependencies of the projects being promoted through the Fraser Gateway Program. This work will be a key factor in determining the business structure required to implement and finance the FRC by assessing the traffic and revenue risk. A near investment grade traffic and revenue study is expected to cost between $500,000 and $1 million and was not previously budgeted.

- **Interest costs.** The original budget anticipated the development phase of the work to be completed by December of 2003. Because of the time required for environmental certification, the Request For Proposal will not be able to be sent out to a short list of proponents until March of 2004. The Board will be presented with a draft RFP for approval in December. Because of the additional time to issue an RFP, interest during construction (i.e. financing costs for the capital budget) will be $120,000 more than originally anticipated. If the environmental review process is shortened, then the RFP will be advanced accordingly.

- **Strategy for Albion Ferry.** The business case for FRC originally assumed that the Albion Ferry would not operate once the crossing was opened to traffic. While the Board confirmed on March 28, 2003 that the Albion Ferry's operating costs would be diverted to help pay for the bridge crossing, the Board also endorsed a recommendation to consult with the various stakeholders to determine a recommended strategy for the future of the Albion Ferry. The cost of this consultative effort was not previously budgeted.

- **Project office space.** TransLink, together with the Province, established a joint Fraser Gateway program office in Metrotower II. Due to the size of the program and the staffing requirement to support the individual projects, the use of existing TransLink or provincial office space was not available or practical. Costs are being shared with the province, but office costs were not previously budgeted.

ALTERNATIVES

The additional project development budget is required to advance the project to an acceptable "transaction ready" state. The effort required to get the project to the RFP stage was previously underestimated with very preliminary information. This additional work needs to go ahead to ensure a high quality selection process and provide a high level of comfort around the cost estimates, traffic forecasts, revenue potential, and contract documentation. A high quality process will also help ensure that quality bids are received.

The Board could consider delaying property acquisition until the proponent is selected, and account for the short-fall in the project development budget by transferring $2.75 million from the original $8 million property budget. However, this would delay the project by a minimum of twelve to eighteen months.

The Project team reviewed the option of having another agency acquire the right-of-way, but from a legal perspective, it was viewed problematic since TransLink is identified as the sponsoring agency. Issues of title and sponsoring agency need to be clear if there were to be any legal challenges.

CONCLUSIONS

Authorization of an additional $32.75 million in project budget, over that previously approved by the Board in May 2002, is required to advance the acquisition of property along the alignment and cover the costs of additional project development efforts.